GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2094
ANSWERED ON:11.12.2015
Price Deflation
Roy Prof. Saugata

Will the Minister of FINANCE be pleased to state:

(a) whether price deflation poses real challenges to Indian economy;
(b) if so, the details thereof; and
(c) the steps taken by the Government to address the challenges effectively?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a) & (b) In an emerging and developing economy moderate inflation is desirable to spur growth impulses and sustained deflation is a challenge as it generally lowers aggregate demand and economic activity.

In the Indian economy inflation as per the Consumer Price Index −New Series (CPI)
and other inflation indices has been in low positive territory while Wholesale Price Index(WPI) is in the negative zone, since November 2014. Under the Monetary Policy Framework Agreement signed between the Government and the Reserve Bank of India, year on year change in CPI has been accepted as the anchor for inflation in the Indian economy.

The behavior of WPI is influenced by the prices of international commodities
including crude oil, which have been declining in the recent past while CPI inflation
affects the ultimate consumers and includes consumer goods and services.

In view of movement in CPI inflation and growth in the GDP, the Indian economy
cannot be characterized as the one undergoing a deflationary situation.

(c) To address the challenges posed to the Indian economy, the Government has undertaken a series of sectoral and macroeconomic reforms and is boosting aggregate demand through public investment in roads, railways and irrigation; liberalizing FDI flows ; unblocking large number of stalled projects etc. Further, RBI has reduced the repo rates by 125 basis points since January 2015 which have impacted a reduction in interest rates and would spur investment and growth in the economy.